UNITED NATIONS

TD

United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/40(1)/7
23 July 1993

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Fortieth session
First part
Geneva, 20 September 1993
Item 5 of the provisional agenda

FOLLOW-UP TO THE RECOMMENDATIONS ADOPTED BY THE CONFERENCE AT ITS EIGHTH SESSION: EVOLUTION AND CONSEQUENCES OF ECONOMIC SPACES AND REGIONAL INTEGRATION PROCESSES

Report by the UNCTAD Secretariat

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GE.93-52742 (E)

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ABBREVIATIONS

ACC	Arab Cooperation Council
ADP	Anti-Dumping Measures
AFTA	ASEAN Free Trade Area
AMU	Arab Maghreb Union
ANCOM	Andean Common Market
ANZCERTA	Australia New Zealand Closer Economic Relations Trade Agreement
ACP	African, Caribbean and Pacific Countries
ASEAN	Association of South East Asian Nations
APEC	Asia Pacific Economic Cooperation
ATPA	United States - Andean Trade Preference Act
CACM	Central American Common Market
CAP	Common Agricultural Policy of EC
CARICOM	Caribbean Community
CBI	Caribbean Basin Initiative
CEAO	West African Economic Community
CEECT	Central and Eastern European Countries in Transition
CEFTA	Central European Free Trade Area
CIS	Community of Independent States
CEPGL	Economic Community of the Great Lakes Countries
CET	Common External Tariff
CUFTA	Canada - United States Free Trade Area
DFA	Draft Final Act of the Uruguay Round Multilateral Trade Negotiations
EA	Europe Agreements
EAI	Enterprise for the Americas Initiative
ECCAS	Economic Community of Central African States
EC	European Community
ECDC	Economic Cooperation among Developing Countries
ECO	Economic Cooperation Organization
ECOWAS	Economic Community of West African States
ECU	European Currency Unit
EEA	European Economic Area
EFTA	European Free Trade Association
FDI	Foreign Direct Investment
GCC	Cooperation Council for the Arab States of the Gulf
GSP	Generalized System of Preferences
GSTP	Global System of Trade Preferences among Developing Countries
IADB	Interamerican Development Bank
LAIA	Latin American Integration Association
NAFTA	North American Free Trade Area
MERCOSUR	Southern Cone Common Market
MFN	Most Favoured Nations treatment
MRU	Mano River Union
OECS	Organization of East Caribbean States
PTA	Preferential Trade Area of Eastern and Southern African States
SAARC	South Asian Association for Regional Cooperation
SADC	Southern African Development Community
SEM	Single European Market
UDEAC	Central African Customs and Economic Union
VER	Voluntary Export Restrictions

FOREWORD

At its eighth session, the United Nations Conference on Trade and Development recognized that large economic spaces could foster competitiveness, contribute to trade liberalization and help impart new dynamism to international trade, and agreed that the evolution and consequences of the emerging enlarged economic spaces and regional integration processes were to be among the areas on which future work of UNCTAD should focus (para. 63 (3) of the Cartagena Commitment).

Accordingly, the Conference requested "the Trade and Development Board to review the implications of emerging regional free trade and economic integration agreements for developing countries and for the international trading system and to promote regional and subregional integration, particularly among developing countries, as complementary means to strengthen the trade liberalization process in the world economy" (para. 146 of the Cartagena Commitment). The Trade and Development Board had already undertaken such reviews of regional economic integration on earlier occasions, inter alia, at the second part of its thirty-sixth session in March 1990. Furthermore, the United Nations General Assembly considered the issues of bilateral agreements and regional integration at its forty-fourth session and adopted, as a result, resolution 44/219. This report has been prepared to facilitate the Board's deliberations on this topic.

CONCLUSIONS AND POLICY ISSUES

(i) Regional economic integration is rapidly gathering pace with a number of new distinct features: new groupings are expanding around major trading nations, and the emergence of mixed groupings is changing traditional patterns of economic cooperation. Moreover, trade measures are no longer the dominant feature of integration in enlarged economic spaces. Any evaluation of their external impact will need to cover a far wider spectrum of policies. In addition, formal integration is paralleled by investment-led integration.

(ii) There is no inherent contradiction between regional economic integration and the international trade system. The major new disciplines emerging in the larger integration groupings are broadly compatible with emerging new disciplines currently under negotiation in the Uruguay Round. In some areas, such as environment, new forms of cooperation introduced by integration schemes could provide guidance in shaping future international disciplines.

(iii) There is no unambiguous evidence of a clear positive or a clear negative impact of regional economic integration on trade and growth of third countries in their aggregate, but there can be implications for particular countries and products. Chief among them are the creation or diversion of both trade and investment and the risk of marginalization of weaker countries. In addition, various specific concerns have arisen for third countries which make it advisable to keep under continuous review the measures taken, as well as the explicit and implicit economic effects of integration schemes in the range of areas covered by them.

(iv) The GATT, and in particular its article XXIV, sets clear limits to groupings' actions in trade in goods which could be detrimental to the international trading system. Improvements of these provisions are under negotiation, as well as the extension of similar disciplines to the services sector. The proposal of inserting a "GATT acquis clause" into certain integration arrangements might also merit further consideration. The successful conclusion of the Uruguay Round could do much to alleviate the concern of third countries with regard to the integration process.

(v) However, the new developments in economic integration suggest that the related GATT provisions and procedures are somewhat limited. A more comprehensive evaluation of the integration processes and their implications for trade, economic cooperation and development is called for. In particular, development is a key area for such broader evaluation. As integration groupings are the main beneficiaries of their arrangements, they should bear a special responsibility with regard to the implications for weaker trading partners.

(vi) The analysis of the implications of integration has pointed to a number of areas where the support of the international community or of regional groupings would be beneficial, such as: identification of new opportunities arising from integration; technical support to third countries that are adjusting to new trading conditions on integration markets; the promotion of joint ventures and enterprise cooperation between integration groupings and third developing countries; and training of business operators and government officials on the operation of own or foreign integration schemes.

(vii) International support needs to be further strengthened in favour of economic integration and cooperation groupings among developing countries. All groupings and countries interested should actively participate in initiatives to that end taken by the UNCTAD Committee on Economic Cooperation among Developing Countries.

(viii) The broader aspects of integration groupings would merit periodic review in an open consensus-building forum, consistent with the spirit of Cartagena. The Trade and Development Board has on various occasions played such a role.

Chapter I

RECENT EVOLUTION OF ECONOMIC SPACES AND REGIONAL INTEGRATION

1. Since the end of the 1980s regional integration has intensified and expanded geographically substantially faster than progress achieved in the multilateral trade negotiations. Main new features include (i) the formation of large economic spaces around the major markets of the United States of America and the European Community; (ii) the extension of integration to new areas: services, investment, labour, environment, etc.; (iii) the emergence of mixed integration groupings between developing and major developed countries of a reciprocal nature, as well as intensification of mutual cooperation between them in various other forms; (iv) revival of market integration among developing countries; and (v) investment-led integration of trade relations without formal integration arrangements. 1/

2. Major recent changes and new initiatives in integration include: (i) signing of the North American Free Trade Arrangement (NAFTA) which awaits ratification; (ii) the Single European Market has substantially progressed towards its completion, and customs controls on trade in goods have effectively been removed between member States; (iii) the Treaty of Maastricht, once ratified, will provide a framework for monetary union and intensified political cooperation between member States, including EC's development policy; (iv) the European Economic Area is in the process of ratification; it will extend free movement for most goods, services, persons and capital throughout EC and most EFTA countries; (v) negotiations for the adhesion of four EFTA countries to the Community as full members are under way; (vi) CMEA has been disbanded; (vii) a rapid process of rearrangement of the foreign economic links got under way among these countries, as well as with Western Europe. The Europe Agreements provide for free trade mainly in industrial products between EC and six CEECT (Hungary, Poland, Czech Republic, Slovakia, Bulgaria and Romania) as do parallel arrangements with EFTA countries; the Central European Free Trade Area is being established amongst the Visegrad countries (Czech Republic, Hungary, Poland and Slovakia); Central Asian republics joined the Economic Cooperation Organization and the Commonwealth of Independent States is to put cooperation within the former USSR on to new market-based principles between the new countries; (viii) after a substantial structural adjustment and liberalization process, several developing countries have relaunched market integration with their regional neighbours through such new initiatives as the creation of MERCOSUR, the achievement of free trade among certain Andean countries, and the agreement on the establishment of an ASEAN Free Trade Area; and (ix) in addition to Mexico, further developing countries with heavy trade dependence on the United States or EC markets are considering entering into similar reciprocal arrangements: Chile, Argentina, and Venezuela are exploring possibilities for free trade agreements with the United States; Turkey, Malta and Cyprus have shown an interest in EC membership.

3. In the Asian region, business-led integration of mutual trade and investment has made rapid progress. Asia and Pacific Economic Cooperation (APEC) provides a framework for stimulating such enterprise cooperation by non-preferential means.

4. As a result, a number of very large and economically potent networks of various types of integration arrangements are building up, which are organized by and large according to the major geographical regions. In 1991, NAFTA trade amounted to about US$ 225 billion, or about one third of the world exports of member States. Together with their special preferential arrangements in the region, United States and Canadian arrangements represent about 7 per cent of world trade. Trade within European integration arrangements amongst EC, EFTA and the Visegrad countries corresponded in 1991 to about 60 per cent of their world trade. The network of the various integration, association and preferential arrangement, including association agreements with ACP and Mediterranean countries linked with EC, amounted in 1991 to $1,200 billion or 35 per cent of world trade. Taken together with the other integration groupings among developed countries and mixed groupings (Commonwealth of Independent States, Australia-New Zealand Closer Economic Relations - Trade Agreement (ANZCERTA) and South African Customs Union) and with integration groupings among developing countries, trade coverage of such arrangements amounted to about 45 per cent of world trade.

5. This rapid extension and intensification of integration has implications for multilateralism. As the multilateral trading system is evolving between the two tendencies of regionalism and globalization, certain issues arise regarding its future cohesion and the relationship between integration arrangements and emerging multilateral disciplines.

6. The rapid rise of integration further increases the need for evaluating to what extent growth effects are actually materializing, or to what extent preferential or differential liberalization may lead to trade diversion; and also to what extent problems have actually arisen in the course of implementation.

7. As integration is likely to affect different countries and groups in a different manner, depending on their capacity to adjust and take advantage of new opportunities, questions arise in particular about its impact on developing countries and groups of such countries.

8. As the emphasis of integration shifts from trade measures to dynamic effects, the relationships between integration, trade and investment also deserve increasing attention. Will investment mainly stimulate growth, or will it also reinforce regional polarization tendencies due to the particular attractiveness of integration groupings? Will investment-led integration lead to the reduction of the proportion of arm's length trade, and hence to lesser trading opportunities for independent exporters?

9. Finally, integration arrangements are expanding rapidly towards new areas and policies, while trade barriers and policies are being progressively liberalized and losing relative weight. How will this affect the needs and modes for international monitoring of integration schemes to ensure that they remain in harmony with multilateral principles and openness of international economic cooperation and take due account of development needs?

Chapter II

EUROPEAN INTEGRATION

A. The European Community

10. In recent years, the integration process within the European Community has intensified its political aspects with the adoption of the Maastricht Treaty and its opening towards Central and Eastern Europe. Furthermore, the Single European Market programme has been implemented in most of its essential components. As a counterpart, EC has also progressed in improving its cohesion and strengthened its policies and financial instruments in favour of its less advanced member States and regions. The consideration of cohesion conditions the progress of Community policy in general, including in relations with other countries.

1. Main measures of the Single European Market with external implications

11. Various earlier UNCTAD reports evaluated periodically the implications of the Single European Market (SEM) for developing countries. 2/ At this stage of implementation, it is possible to identify areas where problems have actually arisen for non-members in the course of implementation of the Single market; point to outstanding issues; and compare some of the ex ante evaluations with actual performance. Table 1 shows major changes introduced by the Single European Market so far which are of relevance to third countries, as well as major components which remain to be implemented.

(a) Internal market liberalization

12. The free internal market for goods has brought substantial improvements for member States as well as positive effects for external suppliers. The removal of internal customs barriers has effectively been achieved. It reduces the cost of intra-trade and allows foreign firms to trade on a large unified market without further customs procedures. They only need to meet the standards and procedures of any one EC country to accede to all others. Internal liberalization of capital transaction, investment and government procurement has removed some entrenched national barriers, led in certain instances to MFN-wide liberalization, and has increased EC's readiness for negotiations of multilateral disciplines in some others.

13. Completion of the internal market has also raised some problems and concerns for third countries in the course of its implementation. While EC adopted the principle of mutual recognition for harmonization of most of its technical standards, the specification of EC-wide health, safety and environmental standards has caused some concerns in developing countries in such areas as food products. Whether new Community standards are more restrictive or just result in a major change, developing countries may face problems of maintaining market access and need technical assistance to adjust to such changes. The progressive harmonization of sales taxes influences patterns of consumption and imports, as previous lower rates on food and other essential supplies are on the increase while higher rates on consumer durables and luxury products are reduced. The harmonization of excise taxes on

tropical beverages and tobacco products has not yet taken place. EC liberalization of public procurement has been largely completed. While liberalization of government procurement has been partly extended to third countries under GATT, the maintenance of EC price preferences and origin requirements in other important sectors raises concerns to third countries: the Uruguay Round should provide opportunities for negotiating further multilateralization. EC-wide liberalization of procurement has not yet been extended to bilateral aid: consistent application of the single market principle would imply untying of such aid, so that beneficiary countries can choose among EC suppliers. This would reduce costs and render development aid more effective.

Table 1

Changes introduced by the Single European Market (1993)

Substantial or full liberalization or harmonization achieved by 1993	Partial progress and gaps
Customs borders eliminated within EC.	Borders for people remain in force, pending harmonization of security and immigration policies
Government procurement liberalized within EC.	National restrictions on third country imports not yet removed
Mutual recognition of standards and harmonization in most areas.	Convergence of sales, excise and company taxes slower than expected (while procedures harmonized)
Non-financial services liberalized.	Partial liberalization of financial services, including insurance
Capital and investment liberalized.	Liberalization of telecommunication and transport remains to be completed
Right of establishment liberalized.	Energy sector partially omitted
Free movement of labour completed, and in progress for other EC citizens.	Legislation on Community enterprises delayed
Mutual recognition of diplomas.	Social harmonization below targets
CAP completed.	Evaluation, standards, and pricing rules of pharmaceuticals not yet in place

14. The internal market for trade in services and the free right of establishment have made major progress, but are not yet completed. While they bring about major progress in trade-related services for domestic and foreign companies, their extension to third countries has been subject to conditions of reciprocity in such areas as banking, other financial services, and

transports. The SEM will also stimulate substantially competition in air transport, a sector which had been heavily regulated in the past. A few competitive airlines from developing countries may be able to benefit from mutual liberalization and free access to the EC at large. Another important effect of service liberalization will be a reduction of air transport cost: this could improve the market position of Mediterranean, African or other developing countries' products.

(b) External trade policy

15. The Single Market Programme was expected to abolish all national trade policy measures by 1993. However, the large number of national quantitative restrictions, VERs and other trade policy measures of member States regarding imports from third countries and imports from State trading countries have not yet been removed at the time of finalizing this report. How this removal will actually be achieved and the way in which EC will in future tackle problems arising in these industries is of major interest to third countries. One modality under consideration consists of the elimination of such restrictions without replacement or additional safeguards at the Community level: EC would be able to use the safeguards of GATT, just like any other member State. Another modality would consist of accompanying the removal of national restrictions by introducing a special EC clause enabling the EC Commission to take safeguard action, albeit using GATT criteria. Such a procedure could lead to increased pressures for safeguard action at the Community level.

16. Major concerns have further arisen that national quotas may be replaced by Community quotas, VERs or other measures, which constitute de facto quantitative limits to exports to the Community. Import quotas and VERs will survive 1993 with respect to textiles and clothing, where future liberalization depends on the results of the Uruguay Round. Derestriction of car imports by certain EC member States has been subject to an EC agreement with Japan extending VERs to the Community as a whole, while phasing out slowly national quotas of the individual member States concerned. EC also maintains quotas on imports of certain steel products from some countries in transition, as well as quotas on countries, which are not GATT members. EC further completed its Common Agricultural Policy by extending its application to a number of fruits and vegetables of interest to developing countries. In the case of bananas, this implied extension of tariffs to all EC member States, including those with hitherto free entry; tariffication in replacement of stringent national quotas for third country suppliers at very high levels; as well as proposals of Community programmes for support to structural adjustment in the banana industry of member States, associated countries, as well as third developing countries. The trade dispute, which arose from this policy change is currently the subject of the dispute settlement procedures in GATT. The application of phytosanitary safeguards to certain third-country imports has recently created tensions. In the pursuit of its common commercial policy, the EC has, however, on the whole been cautious in resorting to safeguard action in form of quantitative restrictions: the imposition of Community quotas on footwear had been of brief duration. No Community-wide quantitative measures are in force at present outside the above-mentioned areas.

17. Furthermore, the effective imposition of national quotas by member States has become substantially more difficult as a result of the removal of customs borders. Imports of restricted products can now be channelled easily through other member States, though to some extent possibilities of recourse to other measures, such as formal or informal VERs or administrative controls might subsist. The EC procedure to suspend imports of third-country products in free circulation in other EC member States has hence become largely ineffective to restrict imports. The EC Commission has no longer authorized such action after January 1993. 3/ Furthermore, as a result of SEM, previous national import and tariff quotas and ceilings have been globalized at the Community level. This has brought about some simplification and liberalization of imports, as GSP ceilings or MFA-quotas for textiles and clothing can now be used more effectively.

(c) Implications for developing countries

18. Ex ante estimates of the effects of the SEM for developing countries tended to indicate, that at the aggregate level, the net impact on developing countries' trade in goods could be small. On the one hand, trade diversion effects could reduce imports into EC from developing countries by 10 per cent to 15 per cent. On the other hand, the expected income growth in EC might raise EC imports by about 15 per cent. Trade creation effects were expected to dominate in the case of commodities not produced by EC, the main beneficiaries being exporters of fuel, due to the high import elasticity of demand for these products. Both trade-creating and trade-diverting effects were expected to be marginal for commodities and manufactured products with relatively low income elasticities of demand and for industries, which have already reached a more advanced stage of integration. Thus, it was expected that the impact of the single market would be negligible for such industries as textiles and clothing but could become more important for industries, whose price and income elasticities are high. SEM was expected to result in major scale effects and a boost to EC investment, but also to higher offsetting diversion effects. 4/

19. While the SEM is not yet complete, much progress has been made, and it can, therefore, be attempted to compare such estimates with recent trade trends. On the aggregate, EC imports worldwide have expanded at annual average rates of about 11 per cent during the past five years. The proportion of intra-trade has increased somewhat over the period of implementation of the SEM (from 58.8 per cent in 1987 to 61.6 per cent in 1992). EC's imports from developing countries grew as fast as EC's intra-trade: their share remained at about 15 per cent.

20. Concentration of EC trade on intra-trade increased for commodities, in particular food, at the expense of both developing and other developed countries. These results tend to point to continued effects of EC's Common Agricultural Policy. This trend is likely to be curbed by the CAP revision of 1992 and the results of the Uruguay Round. On the other hand, EC imports of manufactures were by far more dynamic than total imports. Imports from

developing countries grew particularly fast, so that they gained shares in EC imports. Fuel imports grew at slower speed but developing countries' share recuperated slightly. Aggregate trade performance of developing countries on EC markets would tend to confirm that the SEM had little impact on developing countries as a group, albeit with a certain differentiation for food exporters as compared to manufacturing exporters among them.

21. Table 2 compares one set of initial estimates of the trade effects of SEM on selected developing countries with the actual evolution of their market shares in EC over the 1987-1991 period. These estimates implied positive effects for all countries, apart from Malaysia, ranging from a net increase of Côte d'Ivoire's exports of 2.6 per cent to a decline in Malaysia's net exports of 0.9 per cent (relative to 1987 exports to EC). They expected that in all countries, the primary sector will achieve larger net gains (or smaller losses) than manufacturing. In six out of the eight countries, manufactures were expected to experience larger trade creation which would be offset by larger trade diversion. When compared to overall and sectoral changes in market shares of these countries in EC, actual trade performance rather reveals major regional disparities: non-preferential Asian suppliers gained substantial shares for their total and industrial exports, while their commodity shares stagnated or fell. This was also the case of Morocco. Only Tunisia's export success was based on food and other commodities, though fuel exports lost markets. The three African suppliers south of the Sahara lost substantial ground in all product groups. One can, therefore, not confirm that commodities fared better than manufactures in EC. The differences between expectations and results may be due to the high sensitivity of estimates to assumed supply and price elasticities, for which no reliable data are available, as well as to the weight of some factors, which also determine trade performance. One crucial factor may lie in the different strength of trade policies and export capacities of various developing countries, with the result of wide disparities in the capability to take advantage of new trading opportunities: the strong gains in EC import shares of the Asian suppliers of industrial products were confirmed by major export increases to other destinations. African countries south of the Sahara continued to lose market shares even under favourable preferential trade policy conditions.

22. These factors show the limits of an ex ante estimates of specific effects of integration in their isolation. The comparison underlines the fact that changes as a result of one set of policies, such as the SEM are only one group of many. The overall impact on trade between countries will be determined by a variety of factors, including domestic policies in the exporting countries and the overall policy and economic conditions in importing and competing States.

Table 2

Estimated SEM impact on selected developing countries and actual trends 1987-1991[a]

	Morocco	Tunisia	Côte d'Ivoire	Kenya	Zimbabwe	Sri Lanka	Malaysia	Thailand
Estimate								
Main sector	Primary	Primary	Primary	Primary	Primary	Primary	Primary	Primary
% gain[b]	0.8	0.9	2.6	1.2	1.3	2.0	-0.9	1.5
Actual performance								
% change in market share[c]	12	6	-38	-22	-11	24	34	43
Total commodities	5	47	-30	-11	-10	-3	-21	0
Industry	25	13	-24	-29	-21	44	94	95

Source: Davenport and Page, 1991; UNSO: COMTRADE.

(a) This table provides a comparison between the estimates made in Davenport and Page, 1991: Table 1.2, of trade creation and diversion in primary goods and manufactures for eight States, and actual EC imports from these States in 1987-1991.

(b) Net gains as a percentage of total exports in 1987 and 1991.

(c) Percentage change between the country's share of total EC, commodities (excluding fuels) and industrial imports in 1987 and 1991.

23. The SEM has stimulated also domestic and foreign investment in the Community (taken as a unit). Intra-EC FDI increased from one quarter of the total inward stock in the EC in 1980 to 40 per cent in 1990. 5/ Enterprises invested more in EC to exploit new opportunities created by the large market, benefit from scale effects and rationalize production. The creation of a large single market has also stimulated cooperation amongst enterprises, as well as take-overs and mergers between Community firms, allowing them to approach firm sizes comparable to world market leaders and to invest in new large-scale research and technology projects. Major policy instruments of the EC to that end included the liberalization of capital movements within EC, the granting of freedom of establishment within the Community, and the Council Regulation of Concentrations between Undertakings, which regulates mergers, takeovers and acquisitions within or outside the EC. Member States also liberalized investment regulations and exchange controls and extended this treatment largely to third countries.

24. Together with intra-EC investment, foreign direct investment also increased from other regions. Both factors might comprise an element of investment diversion. TNCs, in particular from Japan, established themselves in EC to be in a better position to benefit from this Europe-wide united and dynamic market. Third-country investments may have also flown into the community to avoid protectionist barriers still maintained by EC.

25. Almost half of the Community's FDI outflows took place by 1990 outside Western Europe. North America has not lagged far behind in relative importance as a destination of EC-based FDI. However, there has been a general decline in the importance of developing countries as a destination of EC based FDI since the mid-1970s: by the late 1980s, these countries only accounted for between one eighth and one quarter of total outward FDI-stock of member States. 6/

26. Free internal movement of labour will improve the competitive position of EC's service industries as movements of staff from certain third countries will be subject to visa requirements. The movement of third-country labour is also likely to be affected by the SEM. The removal of internal border control may raise, in the process of their unification, pressures for more stringent immigration rules and border controls on aliens at the external border of the Community. For example, will different visa requirements for specific third countries be liberalized by all EC countries or lead to imposition of visa by all?

27. The above evaluation has shown that the SEM effects are likely to differ among developing countries. Table 3 sets out the main potential implications of the SEM for different developing regions. Most developing regions seem likely to be able to benefit from opening up of new opportunities and growth. However, African countries south of the Sahara seem to face a cumulation of potential problems, as their export products, both commodities and manufactures, meet with low income elasticities of European demand. Their export performance and capacities have been weaker than those of other developing regions. They seem to have greater problems to face tightened competition in the Community. Furthermore, their few non-traditional exports are in "sensitive" sectors, where the Community protects itself against other countries by quotas and VERs. In the case of textiles/clothing, for example, the national quotas of the MFA, which constrain the exports of the most competitive suppliers, provide a degree of protection to African suppliers, which enjoy free access and trade preferences in the more protected EC markets. Hence, the removal of national quotas on third-country suppliers in this and other areas may threaten existing markets for less competitive ACP suppliers. Gradual liberalization of the MFA and other likely results from the Uruguay Round will work in the same direction. Recent trade performance points to a danger, that the combined effects of these changes may lead to further marginalization of African countries.

28. The EC has programmed to evaluate the effects of the SEM on developing countries. The EC Commission should "establish an effective mechanism to monitor the trade-diversion effects of the establishment of the single market on the less-developed countries". 7/ The developing countries have an interest that any effects on them are identified as soon as possible.

Table 3

Potential implications of SEM for different developing countries

Country Group	Potential Opportunities	Potential dangers
NICs (for example East Asia, ASEAN)	Trade creation, Investment creation in NIC's	Increased protectionism
Mediterranean (for example, Algeria Morocco, Tunisia)	Trade creation, Investment creation Relocation	Trade diversion (to EC), agriculture, Investment diversion, Restricted migration
Latin America	Trade creation	Investment diversion, Increased protectionism
Africa, Caribbean, Pacific	Lower cost of EC services and imports from EC	Erosion of preferences

2. The Maastricht Treaty

29. The Maastricht Treaty establishes a number of longer-term objectives towards the establishment of economic and monetary union, a common foreign policy and, ultimately, full union. EC's commercial policy remains largely unaffected.

30. Areas of relevance to developing countries are the social dimension, monetary union and EC's development policy. The Social Charter is likely to raise labour costs, in particular in the peripheral EC States. This might benefit developing-country exporters by improving their relative competitiveness. If it results in stronger southern European pressure for protection, the net result could be adverse. Monetary union could affect the African States that are members of the franc zone which is now linked to the ECU. A source of stability in the past, this also prevents individual States from realigning their currencies to adjust to higher rates of inflation. This problem is likely to increase as Europe moves closer to monetary union.

The design of a new Community development policy

31. The Maastricht Treaty aims at evolving a more coherent development policy of EC. Its provisions establish a common framework for European policy towards developing countries and introduce for the first time into the EC Treaty objectives of Community development policy: (i) the sustainable economic and social development of the developing countries, and more particularly the most

disadvantaged among them; (ii) the smooth and gradual integration of the developing countries into the world economy; (iii) the campaign against poverty in the developing countries; (iv) the general objective of developing and consolidating democracy and the rule of law, and that of respecting human rights and fundamental freedoms.

32. The provisions of the Maastricht Treaty with potentially the greatest implications for developing countries relate to the design of a new Community development policy. They should potentially lead to a greater coherence between aid and other sectoral policies as the objectives of development policy should be taken into account "in the policies that [the Community] implements which are likely to affect developing countries". This requirement would mean that the implications of trade, agricultural, financial and other Community policies affecting developing countries should be designed to ensure the sustainable economic and social development of the poorest countries and the poorest people within them; and to facilitate the smooth and gradual integration of the developing countries into the world economy.

33. The Treaty further establishes new modalities for sharing of responsibility between the Community institutions and member States regarding development aid and cooperation. First steps are being taken to improve EC's aid coordination and coherence of European policies affecting developing countries. The EC Development Council requested the Commission to review past practice of policy coordination, propose a more systematic approach to operational coordination, and suggest modalities for the integration of the various Community aid instruments. Furthermore, the Commission is to report on the link between development cooperation policy and other Community policies. These reviews may lead to changes in EC organizational practice and the design of new principles and guidelines for implementing the Maastricht objectives for EC's development policy. These developments deserve appropriate attention and interest by those concerned, including the developing countries.

B. The European Economic Area and the applications of EFTA countries for accession to the EC

1. The European Economic Area (EEA)

34. The EEA builds upon the free trade agreements concluded between each of the EFTA countries and the EC in 1972 and 1973, which has essentially led to free trade in goods amongst member States of both groupings. 8/ The EEA aims at reducing the widening gap in progress in integration and the discrimination that would otherwise have resulted for EFTA countries from the SEM. EEA extends the freedom of movement of goods, services, capital and labour to all 16 member States. However, the EEA is not a customs union nor does it involve adoption of EC's common policies towards third countries: EFTA countries maintain their own customs tariffs, bilateral and association agreements. Customs borders between EC and EFTA countries remain. Table 4 sets out those areas, where major changes occur and those which will remain largely unchanged as a result of EEA.

Table 4

The coverage of the four freedoms in the EEA

Degree of change over the status quo ante		
Major	Limited	Nil
Internal changes:		
Free movement of goods: · Government procurement · Competition policy · Origin Cumulation and certification · Standards harmonization · Liberalization of imports of fishery products **Free movement of workers** **Free movement of capital and investment** **Free right of establishment** **Free movement of services**	· Liberalization of a few agricultural products · Reduction of import charges for selected processed agricultural products	· Liberalization of industrial products(in effect) · QRs and NTBs (already liberalized) · Customs and tax borders remain
Changes in external rules		
· Notification clause on trade policy changes · Establishment of banking services · Use of third country inputs in rules of origin	· Coordination clause on shipping · Standards testing by third countries	· Tariffs and NTB systems remain · External Agreements (including trade, association and preference schemes) remain

35. Effective liberalization or reduction of mutual trade barriers by EEA will be limited. New liberalization will be introduced for fishery products. Intra-EEA tariffs will be removed amongst all member States for a short list of agricultural products (relating to about 20 4-digit-HS items in part or in total). These products include certain agricultural products of export interest to developing countries, such as coffee, coffee products and extracts, tea and tea extracts, cocoa paste, butter and powder, certain tomato products, etc. Import charges will also be reduced partially for a few processed agricultural products. 9/ Some further concessions on temperate zone and mediterranean products are extended bilaterally between individual EFTA States and the EC. Some of these concessions could potentially affect developing countries. Although EFTA countries are not necessarily major suppliers of such products, significant cross-border trade in beverages does occur between them and EEC. Potential trade diversion effects could be reduced by multilateral tariff reductions in the context of the Uruguay Round.

36. Other trade measures of the third-country interest include certain improvements in rules of origin. EEA will introduce full cumulation of origin for all working or processing within the area. This will in the main promote the utilization of inputs from within EEA; in cases of highly restrictive criteria (such as double tariff-line jump for textiles) it may, however, also facilitate some imports of inputs from third countries. EEA rules of origin also provide for a 10 per cent tolerance for imported inputs and the value added by processing carried out outside the area (except for textiles and clothing). Given the existing patterns of Western European processing traffic, countries most likely to benefit from such tolerances will be Central and Eastern European countries in transition and Mediterranean countries.

37. EFTA countries agreed to take over EC rules on standards. Mutual recognition agreements, that the EC may negotiate with third countries should be paralleled by similar agreements between the third country and EFTA. Other major components of the EEA will strengthen competition within the area or enhance the competitiveness of its member States. This is likely to be the main consequence of the liberalization of public procurement; the free right of establishment; the free movement of capital and services; 10/ and the free movement of workers. The same is the case for complementary horizontal and flanking policies, such as social policy, environment, research and technological development, mutual recognition of diplomas, education and professional training.

38. For third countries, it may be interesting that to the extent that the right of establishment has been obtained by one of its enterprises, or a standard has been met in any of the EEA member States, access can be obtained to the Western European market as a whole.

39. Direct commitments regarding trade policies and third-country policies and measures are limited. EEA members are committed to notify any reductions and suspensions of MFN duties vis-à-vis third countries and to take note of possible distortions that could arise therefrom. EEA furthermore found it possible to renounce in mutual relations on the application of anti-dumping measures (ADP), compensatory duties or measures taken by them to protect

themselves against unfair trade practices of third countries (subject to certain safeguards). ADP issues can be taken up in the framework of the substantially strengthened competition policies of EEA.

40. A common third-country regime within EEA is only envisaged, to some extent, for the banking and insurance sector. These provisions open up new opportunities for access of third country financial institutions to more restrictive member States (subject to safeguards). Furthermore, EEA foresees close coordination in cases of safeguard action in shipping matters.

2. Accession of EFTA countries to EC

41. Negotiations for full membership have been opened in 1993 between EC, Austria, Finland, Sweden and Norway. 11/ Membership should solve the problems of limited rights of participation of EFTA countries in EC decision-making, and remove internal borders and remaining discrimination.

42. Full membership is likely to bring about more important changes for third countries than EEA. They would result from: (i) trade policy harmonization: applicants are expected to take over all EC trade policy instruments, including the Common External Tariff; Association and bilateral agreements with third countries, including the Lomé Convention and Mediterranean agreements; and the GSP and MFA agreements as applied by EC; (ii) the application of the Common Agricultural Policy (probably with substantial transitional arrangements and taking into account ongoing negotiations in the Uruguay Round); (iii) the extension of all other Community policies and institutions not yet covered by EFTA or EEA arrangements, including financial and monetary cooperation, fiscal and macro-economic policy coordination, cooperation in immigration, security, foreign and development policies and other policy areas of the Maastricht Treaty; (iv) full participation in decision-making of the Community: just as the South enlargement has influenced EC decision-making in its particular way, the new members would be able to influence EC decisions in the direction of different priorities, which may be of some importance for future foreign trade policies, third-country relations and development policies of EC.

43. In the area of foreign trade policies, EFTA has concluded free trade agreements with CEECT and certain Mediterranean countries, along the lines of EC's Europe and association agreements. Future adjustments should therefore be easier to accomplish. On the other hand, the take-over of EC's common policy instruments carries some potential dangers of deteriorating market access for third-developing countries, in particular with regard to the application of the Multi-fibre Agreement and the GSP. While the eventual phasing out of the MFA is in principle envisaged in the Draft Fund Act (DFA) of the Uruguay Round, the new members would to some extent restrict temporarily their present access for developing countries, if they were to take over EC's present set of agreements. This would at least be the case for the Swedish market, which is fully liberalized. It would also apply to some extent to other EFTA States, which have negotiated bilateral restrictions with fewer countries and for a smaller number of product categories, essentially clothing only. The number of MFA bilateral agreements with QRs and VERs

range from 7 in Finland and Austria to 18 for Norway. By comparison, EC has 30 such agreements together with an exchange of letters for 10 other States, covering clothing and textiles.

44. Similarly, GSP schemes of EFTA countries are to some extent more liberal, than EC's scheme: production coverage is somewhat wider; ex ante ceilings and limitations are absent and safeguards rarely applied; on the other hand, tariff preferences of some EFTA countries are only partial. Bearing in mind that EC is envisaging a revision of its GSP, as well as uncertainties concerning the final outcome of the Uruguay Round, a broad indication of the potential scale of change may be obtained by comparing the status of major developing country suppliers to EFTA and EC markets. An analysis has been made of the different level of market access provided for the most important products covered by the EFTA GSPs (in terms of import value for the latest available year). For each country - Austria, Finland, Norway and Sweden - the 10 most valuable goods eligible for the GSP were analysed to identify the most important developing country suppliers and a comparison was made of the terms of access for these exporting States under the GSP and the relevant EC trade preference scheme. 12/ Summary results from this comparison are presented in Annex Table 3. This shows that in just over half of the cases covered a shift from the EFTA to the EC system would result in a deterioration in the terms of access for those countries that are currently the most important GSP suppliers to EFTA. 13/

45. In most cases, the critical factor determining whether GSP treatment is "less favourable" or "no difference" is the position of the main supplying countries in the EC's pyramid of privilege. Whereas the EFTA States have one system for all developing countries (or in some cases two, since least developed countries are given special treatment), the EC's system provides significantly different levels of preference under its various agreements. In those cases where the main suppliers to the EFTA markets are countries in the upper echelons of the EC's pyramid (i.e. in Africa and the Mediterranean) the enlargement of the EC will tend not to result in any change in access terms. By contrast, in cases where the major suppliers to the EFTA markets are in the lower levels of the EC's pyramid (i.e. Asia and Latin America) enlargement is likely to result in a deterioration in their access terms.

46. It should, however, be possible to design methods to avoid a temporary increase in MFA restrictions before final liberalization as a result of the Uruguay Round by means of transitional arrangements. Certain GSP concerns could be taken into account in the GSP reform envisaged by the Community. Other differences regarding foreign trade policy instruments and existing free trade or association agreements of EFTA States are also likely to be easier to resolve, once they would participate as full members in EC decision-making.

47. Finally, the accession of EFTA countries to the EC would extend additional trade preferences to ACP and Mediterranean countries and enhance economic and industrial cooperation between Western Europe and a large number of developing countries in all regions. It would also strengthen the financial mechanisms and resources for the EC's common development policy.

C. Eastern extension of European free trade

1. Europe Agreements

48. Since the dramatic changes in Eastern and Central Europe in 1989, these economies have been intensifying rapidly their trade and economic relations with Western Europe. This process led over several stages to the conclusion of association agreements between the European Community, Hungary, Poland, the Czech Republic, Slovakia and, more recently, Bulgaria and Romania. EFTA concluded similar free trade agreements with these countries, the Scandinavian countries also with the Baltic States.

49. The various Europe Agreements are to support the transition process. They aim essentially at establishing free trade areas for industrial products and open the perspective for closer economic cooperation in other areas, and eventually in the longer term for full membership. Subject to still pending ratification of those agreements, their commercial provisions have been put into effect under interim arrangements since March 1992 in the case of the Visegrad countries. EC eliminated in advance its tariffs and quantitative restrictions on a great number of industrial products, while terminating at the same time the temporary GSP coverage of these countries. Liberalization by its association partners will be phased over a 10-year period. However, the Agreements cover only a very limited number of agricultural products while quantitative restrictions remain in force for textiles and clothing under existing bilateral agreements subject to the conclusion of the Uruguay Round; tariff liberalization is phased over longer periods for textiles and steel. Several special safeguard measures are foreseen by the Agreements, in addition to the applicability of anti-dumping measures. 14/ In view of these limitations, negotiations have resumed for accelerating the liberalization process.

50. A further extension of free trade agreements appears possible, as the EC Commission is presently evaluating the feasibility of extending free-trade agreements to the Russian Federation and certain other CIS States. Meanwhile, GSP benefits have been extended to the successor States of the former Soviet Union by EC and other developed countries.

51. The various agreements of EC and EFTA countries will be applied separately. In the longer term perspective, if all various Europe, EFTA and CEFTA agreements are ratified and EFTA membership negotiations successfully concluded, all these arrangements are likely to merge into a single Free Trade Area throughout Western and Central Europe.

52. Implications of the Europe Agreements for developing countries are likely to arise mainly in EC markets. CEECT will increasingly make their competition felt, as they approach market shares reflecting normal trade intensity between European countries. Over the past four years, the Europe Agreement partners have rapidly reoriented their trade towards Western Europe. The Visegrad countries achieved particularly rapid growth in their exports towards EC (1987-1991) ranging from 18 to 23 per cent annually: manufactures dominate and are the most dynamic component. But the combined share of the six agreement partners in EC imports was still very low in 1991 at 1.3 per cent (less than the import share of Norway).

53. This low level of trade, the limitations of the Europe Agreements, and the slower than expected progress of transition processes in these countries make it probable that the aggregate effects on competition with developing countries on EC markets may remain limited for some time to come. Competition may, however, intensify for some products, where Europe Agreement partners, as well as certain developing countries have been successful in exporting to EC. Annex Table 4 shows examples of product groups and countries for which such competition on EC markets is more likely to occur: mainly food, fertilizers, steel products, machine parts, etc. from Mediterranean and industrially advanced developing countries. While in principle competition is also likely to increase for textiles, clothing and footwear, the relative competitive strength of CEECT suppliers is less pronounced.

54. The effects of substantial liberalization of CEECT economies and their integration for trading prospects on their markets are likely to be largely overshadowed by the effects of the transition process. The contraction process in trade with developing countries has continued. While former CMEA members and barter agreement partners have been particularly affected, some new trade flows have emerged with industrially advanced developing countries in Asia, as well as with suppliers of fuel. In the long run, resumed growth in the Visegrad countries should offer substantial perspectives for creation of new trade with developing countries and diversification of geographical trading patterns. Reciprocal preferences granted to EC and within the CEFTA are likely to be outweighed by future growth dynamics, as well as by the fact that the Visegrad countries are extending Generalized Preferences to developing countries. However, developing countries currently face substantial difficulties to enter the markets in transition and take advantage of the trading dynamics and opportunities where they are arising. Major problems relate to trade financing, trade intelligence and adequate export support. There would be a case for trilateral cooperation and EC support to development of mutual trade and economic cooperation between CEECT and developing countries.

2. The Central European Free Trade Area (CEFTA)

55. The Czech Republic, Hungary, Poland and Slovakia signed in December 1992 an agreement to establish progressively a Central European Free Trade Area. The agreement covers some 7,500 industrial products and a limited number of agricultural items, mostly negotiated bilaterally. Liberalization of tariffs and quantitative restrictions will take place in three stages between March 1993 and 2001.

56. CEFTA should provide a new framework to maintain as far as possible the earlier close industrial links between the various member States and to resume dynamics under the new conditions of market economies. For the time being, intra-trade remains depressed. While CEFTA enterprises are starting to reorganize their industrial and trade cooperation throughout Western and Central Europe, trade with CIS member States continues to rely mainly on old instruments and barter deals. Cooperation between CEFTA and CIS States still lacks a framework for reorientation and new departure for mutual trade and economic cooperation.

Chapter III

ECONOMIC INTEGRATION IN THE WESTERN HEMISPHERE

A. The Enterprise for the Americas Initiative

57. The broadest of the various integration schemes in the Western Hemisphere is the Enterprise for the Americas Initiative (EAI) of the United States. Proposed by President Bush in June 1990, the EAI seeks to promote trade and investment, debt reduction and environmental protection. The centrepiece of the EAI is the conclusion of free-trade agreements between the United States and Latin American countries, either on a bilateral basis or with groups of countries. The ultimate objective is the creation of a Western Hemisphere free-trade area.

58. The negotiation of framework agreements which flag important economic and social principles is a pre-condition for the conclusion of free-trade arrangements. Economic stability and satisfactory progress with market-oriented economic reforms in Latin American partner countries are further crucial prerequisites. As of 1992, the United States had signed bilateral framework agreements with most countries in Latin America. 15/ However, no free-trade agreements have so far been negotiated between the United States and Latin American countries, with the exception of Mexico. Various countries, such as Chile, Argentina and Venezuela, expressed their interest in concluding free-trade agreements with the United States or becoming members of NAFTA. NAFTA raises some issues about its impact on Latin American integration arrangements. An increasing expansion of such agreements would further risk to make the position of other Latin American and Caribbean non-participants more difficult.

59. EAI also provides an overall framework for other preferential arrangements within the region. In 1990 United States has put its Caribbean Basin Initiative (CBI) in favour of a number of Central American and Caribbean countries on a permanent basis and improved the scheme to some extent. The scheme provides for tariff preferences in favour of some of their products, which are not covered by GSP. The United States Andean Trade Preference Act (APTA) introduced in 1993 selected tariff preferences in favour of Bolivia and Colombia (which could eventually be extended to Ecuador and Peru). Clothing, textiles and shoes, as well as certain other sensitive export products, are not covered by these schemes (additional facilities have been extended to processing traffic in favour of CBI beneficiaries). 16/

B. The North American Free-Trade Agreement (NAFTA)

60. The agreement establishing NAFTA was signed in 1992 and is subject to ratification by its member States Canada, Mexico and the United States. NAFTA would create a massive market - over 360 million consumers and over $6 trillion in annual output. Meanwhile, the implementation of the Canada-United States Free-Trade Area (CUFTA) agreement has made progress and achieved free-trade for a number of industrial products. 17/

Elimination of trade barriers 18/

61. NAFTA provides for the progressive elimination of all tariffs in trade between Mexico, Canada and the United States with regard to goods qualifying as North American under its rules of origin. All three countries will also eliminate prohibitions and quantitative restrictions applied at the border, such as quotas and import licences.

62. Apart from the application of rules of origin, restrictions on cross-border trade can still be imposed in the form of anti-dumping and countervailing duties and a few non-discriminatory import controls designed to protect public moral, the environment, the balance-of-payments, cultural industries and national security.

63. For most goods, existing tariffs will either be eliminated immediately or over a five-, ten- or fifteen-year transition period. The longer transition periods will be applied to sensitive sectors and by Mexico. Special rules will apply in the case of some sensitive items, in particular agricultural products and textiles and clothing, for the elimination of quantitative restrictions. Moreover, during the transition period, a NAFTA country may take safeguard actions to provide temporary relief to industries adversely affected by surges in imports.

64. The rules of origin for textiles and clothing have been made more stringent than those included in the Canada-United States Free-Trade Agreement. For most products the rule of origin is "yarn forward" ("triple-jump"), which means that yarn, fabric and garment must all be produced within the region to qualify for preferential treatment. An even more restrictive "fibre forward" rule is applied to certain products such as cotton and man-made fibre yarns.

65. The origin requirements applicable to the automobile sector have become more restrictive than in the preceding automobile Agreement and CUFTA. To qualify for preferential treatment, passenger cars, light trucks and major components for such vehicles must contain 62.5 per cent of North American content. For other vehicles and automotive parts, a North American content of 60 per cent is required. Thus, NAFTA attempts to ensure the development of a fully integrated market for automobiles and auto parts.

Investment and financial services 19/

66. NAFTA removes significant investment barriers along the lines of the DFA for the Uruguay Round. Each member country will treat investors from another NAFTA member no less favourably than its own investors and investors of other countries. No NAFTA country may impose specified performance requirements for investments in its territory, namely specified export levels, minimum domestic content, preferences for domestic sourcing, trade balancing, technology transfer or product marketing.

67. Financial service providers of a NAFTA country may establish in any other NAFTA country banking, insurance and securities operations as well as other types of financial services. Each country must permit its residents to purchase financial services in another NAFTA country. Each country will

provide both national treatment and most-favoured-nation treatment to other NAFTA financial service providers operating in its territory. Mexico will permit financial firms from another NAFTA country to establish financial institutions in Mexico, subject to certain market share limits that will apply during a transition period ending by the year 2000.

Expected effects of NAFTA

68. The three countries participating in NAFTA should benefit from increased efficiency and growth in trade due to further specialization. Changes can also be expected in the patterns of trade of NAFTA countries, both in trade among themselves and with third countries.

69. A number of econometric models have attempted to estimate the impact of NAFTA on trade between Mexico and the United States. 20/ Three models which were concerned with "once and for all effects" estimated that exports from the United States to Mexico would increase by about 8-12 per cent, while exports from Mexico to the United States would rise by 13-17 per cent. 21/ Some other study arrived at less optimistic results. According to its estimations, Mexico's exports to the United States would expand only by about 10 per cent. 22/ The wide range of estimates is indicative of the large margin of error inherent in any such estimates. A study which examined the impact of NAFTA on Mexico's exports of textiles and clothing to the United States suggests that such exports could rise by as much as 42 per cent. 23/ More than half of this increase would be accounted for by exports which would currently be eligible for preferential access to the market of the United States under offshore assembly tariff provisions (HS 9802.00). Cumulation facilities may bring about that rules of origin requirements under NAFTA may not hinder Mexico's exports of textiles and clothing to the United States significantly. All these estimations are based on the assumption that all tariff and non-tariff barriers (NTBs) would be removed immediately. However, under NAFTA various restrictions would remain in place during transition periods. The study mentioned above which arrived at a growth rate of about 10 per cent for Mexico's exports to the United States on the assumption of unrestricted trade also examined the potential impact of a free-trade agreement on the country's exports if "hard core" NTBs of the United States are kept in place. 24/ The study suggests that in such a case exports from Mexico to the United States would rise by about 7.5 per cent. In a dynamic perspective, increased foreign investment in export-oriented production capacity in Mexico can also be expected to contribute to an expansion of Mexican exports.

70. NAFTA is also expected to stimulate growth, in particular of the Mexican economy. This will further enhance the effectiveness of Mexico's policy reforms and enlarge trading and investment opportunities for third countries. NAFTA will also provide some new growth opportunities to Canadian and United States economies. As a result, NAFTA is likely to bring about certain trade creation effects for third countries, as well. Some studies have concluded that the effects of an immediate removal of all tariff and non-tariff barriers under NAFTA on trade with the rest of the world may prove to be small. 25/ This suggests that trade creation may largely offset trade diversion at the aggregate level. Trade diversion can, of course, be important for individual countries, especially small economies, and for

particular export sectors. It could occur relatively quickly in the case of products in respect of which NAFTA requires the United States to remove immediately all tariff and non-tariff barriers in trade with Mexico. Other countries whose exports of such products still face trade barriers in the United States would run the risk of suffering trade diversion. A successful outcome of the Uruguay Round would reduce such risks.

71. Annex table 5 illustrates the type of products for which Mexico might expand its exports to the United States. They are products in respect of which Mexico currently faces tariff barriers in the market of the United States. Unhindered access for competing Mexican products could also erode the preferential status under the CBI, ATPA and the GSP, and this could also lead to trade diversion.

72. The extent of trade diversion for individual products and countries is uncertain, in particular as it is not known whether and to what extent countries which compete with Mexico will continue to face trade barriers during the transition periods set by NAFTA for the elimination of restrictions by the United States on many Mexican exports. Annex table 5 can provide a starting point for evaluating potential trade implications.

73. As shown in annex table 5, Mexico may increase exports of certain vegetables and fruit products, textile yarns, iron and steel products (in particular semi-finished and flat-rolled items), radio-broadcast receivers, electrical apparatus and appliances, magnetic tapes for sound recording, parts of radar and radio navigation apparatus, electric motors, electrical apparatus for switching or protecting electrical circuits, and insulated wire cables and other electric conductors, clothing articles and footwear. As product coverage is only illustrative, trade diversion may occur in other export sectors as well. On the other hand, little trade diversion can, for instance, be expected with regard to exports of power generating machinery and equipment (SITC 71) and specialized machinery for particular industries (SITC 72) as Mexico benefits already for many of these products from duty-free access under the GSP (and has, in most cases, not as yet been denied preferential treatment through the application of competitive need criteria). The developing countries which compete with Mexico in the United States market as suppliers of the products in annex table 5 are essentially economies in South and South-East Asia, in Central America and the Caribbean. 26/ Moreover, Brazil is a major competitor with regard to cotton yarn, semi-finished iron and steel products (besides Venezuela) and footwear. Over the medium term, the impact of trade diversion may be relatively greater for Asian developing countries if more countries in Latin America conclude free-trade arrangements with the United States.

74. Risks of trade diversion can also arise on the Mexican market in favour of North American suppliers for certain industrial exports from Brazil, Argentina, China, Hong Kong, Republic of Korea and other industrially advanced suppliers (such as for steel, pumps, construction machinery, tractors, office machinery, etc., to the extent that products are similar to those supplied from United States or Canada), as well as with regard to certain Latin American and Caribbean agricultural products (such as vegetable oils). As Mexican liberalization will be phased, any trade diversion effects will be spread out over a certain period.

75. Furthermore, the elimination of trade barriers will increase the attractiveness of Mexico for foreign investors, both from North America and countries outside NAFTA, who seek to serve the North American market from a low-cost location. The United States is already the largest foreign investor in Mexico, holding slightly more than 60 per cent of the country's foreign capital stock. Japan's direct investment in Mexico recorded a dramatic increase, from $36 million in 1989 to $168 million in 1990, but so did Japan's investments in various other Latin American countries.

Chapter IV

ECONOMIC INTEGRATION IN ASIA AND THE PACIFIC

76. The Asian Pacific countries not only show unparalleled growth dynamics; they are also in the process of growing closer together. Besides Japan, the region has a number of fast-growing developing countries at its centre. Spontaneous integration of trade and investment is progressing despite the absence of a region-wide formal framework. However, economic cooperation and integration proceeds amongst certain member States within the ASEAN Free-Trade Area, the Bangkok Agreement, the Asian Clearing Union and the Australia-New Zealand Closer Economic Relations and Trade Agreement. In addition, Asian countries cooperate across the Pacific with the North American region within APEC.

77. Intra-Asian trade and investment are growing substantially. Intra-regional trade, including Japan, stands at about 45 per cent of the region's total trade and is, thus, significantly higher than the shares of exports going to the United States or the EC. Major sources of intra-regional exports are the four newly industrializing economies and the ASEAN countries, accounting together for well over half of intra-regional supplies. South and South East Asia accounted for two thirds of trade growth in Asia since 1985. Japan's sales within the region amount to about one third of total intra-regional exports: its Asian trade grew broadly at a similar pace as the region's trade with the world. The rapid expansion of China's economy has been a major new source of intra-regional trade growth: Asia, including Japan, accounted for 61 per cent of China's imports in 1991.

78. Intra-regional investment has been playing an important role for the foreign investment boom in the region. Besides Japan, which has traditionally been the largest investor in the region, some more advanced Asian developing countries and territories (e.g. Hong Kong, Singapore, the Republic of Korea, Taiwan Province of China) are investing heavily in manufacturing facilities in other developing economies in the region. Most of these investments are export-oriented and contribute further to intra-regional trade as well as to the region's exports to world markets. Hence, intra-regional investment has become an important factor in the dynamic process of specialization in intra-regional patterns of production and trade. The implications of the intensifying investment network for trade are further analysed in Chapter VI on dynamic effects of integration. The process of economic integration has essentially been market-driven. Investment, production and sourcing decisions of firms have shaped the evolving patterns of intra-regional economic interdependence. Another important driving force has been the liberalization of trade and investment regimes in several Asian and Pacific countries.

79. Some analysts already forecast the creation of a new trading area. So far, the framework for economic integration in Asia and the Pacific has been outward-oriented, not inward-looking. The intra-regional dynamism that can be observed has not been a threat to an open multilateral trading system. Rather, it has led to the establishment of production networks which are building blocs of an international division of labour based on comparative advantage.

A. Asia and Pacific Economic Cooperation

80. Asia and Pacific Economic Cooperation (APEC) aims at fostering economic cooperation amongst its developing and developed member States through non-preferential measures. It essentially enhanced the process of consultations in the region, as well as the analysis of issues affecting the economy of the Asia-Pacific region in order to sustain the region's economic dynamism. Trade and investment cooperation within APEC is essentially led by the business community. APEC provides a framework for encouraging such business initiatives and for removing obstacles to trade and cooperation in related issues, such as transfer of technology and the development of human resources. Mutual trade and investment expanded rapidly: two thirds of trade are conducted within APEC, which represented 23 per cent of world trade in 1991.

81. APEC is likely to reinforce this trend, as member States continue to liberalize and progress along the principle of open regionalism: namely the principle, that the market mechanism leading to spontaneous integration should be promoted without discriminating those outside the region. A call was made by a member State that East Asian economies should try to engage the North American economies in joint initiatives for open regionalism while disciplining the trade policies of those countries at the same time. The APEC process could be instrumental towards this end. 27/

B. Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA)

82. ANZCERTA has accomplished fully duty free and quota free-trade in goods between Australia and New Zealand since 1990. A Protocol on Trade in Services brought this sector as of 1989 within the scope of this Agreement and provides arrangements to further liberalize trade between the two countries in service industries. Cooperation under the ANZCERTA Agreement also extends to the harmonization of business law, the elimination of technical barriers to trade, harmonization of quarantine administrative practices, facilitation of access to government purchasing, harmonization of customs policies and procedures and other areas. 28/ Under the non-reciprocal South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) Australia and New Zealand grant duty free and unrestricted access to all products originating in the developing island member countries of the South Pacific Forum, as well as economic, commercial and technical cooperation. 29/

Chapter V

ECONOMIC INTEGRATION ARRANGEMENTS AMONG DEVELOPING COUNTRIES

83. Regional/subregional integration processes constitute an important dimension of the broader process of economic cooperation among developing countries (ECDC). These processes, in the last five years, have undergone major adjustments and revival in response to the lesson drawn from the largely negative experience of the 1980s 30/, and to the new challenges arising from recent global trends towards more market-oriented economies, liberalization of trading regimes and emergence of enlarged economic spaces. 31/

84. In the 1980s, very few existing regional/subregional cooperation and integration groupings of developing countries have been dissolved and, since 1991, some new ones have been established including: the Central American Group of 4 (involving El Salvador, Guatemala, Honduras, Nicaragua) in April 1993; the Southern African Development Community (SADC) in August 1992; the Central American Integration System (SICA) in December 1991; the African Economic Community in June; 32/ the Southern Cone Common Market (MERCOSUR) in March 1991; and the Group of Three Free-Trade Area in 1993. As a result, very few developing countries are now not members of one or another regional/subregional integration arrangement. In addition, virtually every existing regional/subregional grouping has revised its strategies, programmes and instruments of cooperation, including, in a few cases, their constituent treaties. The most prominent feature of such revisions has been the strengthening of market integration processes leading to the formation of free-trade areas, customs unions and common markets. At the same time, the recent revival has not neglected other facets of regional/subregional cooperation such as: the development and diversification of production structures; the building of monetary and financial structures; the development of cross-border infrastructures and communication networks; enhanced political cooperation; and strengthening institutional machinery.

Market integration

85. Since 1990, virtually every regional/subregional economic integration grouping of developing countries and their member States have revised their integration strategies, programmes and instruments. One of the principal aims of such revisions has been the strengthening of market integration processes (albeit as part of an all-embracing approach which includes the strengthening of monetary and financial cooperation, functional cooperation such as infrastructure development, production development and social and political cooperation. For example, as described in annex table 6, of the 19 selected integration arrangements, three (Bangkok Agreement, the South Asian Preferential Trade Agreement (SAPTA) and LAIA) have the creation of preferential trade area as their final aim; five (CEPGL, ECOWAS, CEAO, ASEAN, ECO) have expressed as their long-term objective the establishment of a free-trade zone; five (UDEAC, ECCAS, MRU, Andean Group, CACM) have declared the establishment of customs union as an ultimate goal; and six (AMU, PTA, GCC, CARICOM, OECS, MERCOSUR) have embraced as their long-term goal the development of common markets.

86. Some of the integration arrangements envisage rapid attainment of their final objectives. For instance, in the Andean Group, the free-trade area officially entered into force at the end of 1992 and a common external tariff should be applied as of 1994. CARICOM's common external tariff should enter-into-force before 1995. In MERCOSUR, liberalization is progressing to reach free-trade by the end of 1995. Similarly, ECOWAS and ASEAN have launched programmes for attaining free-trade areas by the years 2000 and 2008 respectively. The level of implementation of market integration objectives among the integration arrangements is not uniform. Only CARICOM, OECS and CACM may claim to have implemented a free-trade area. Most other groupings are still implementing trade preferences.

87. By contrast to the large economic spaces of developed country groupings, both the volume and the relative importance of trade within integration arrangements remained modest, although the level of 1981 had been, after many years of decline, reached and surpassed by 1990 (see annex table 2). 33/ In most groupings, the share of mutual trade remains under 10 per cent and, in some regions, this share is even less than 1 per cent. The few groupings with higher shares included ASEAN, CACM, LAIA, MERCOSUR and GCC. In terms of both volume and relative importance of intra-trade, ASEAN accounted for the biggest amount and the highest share (20 per cent in 1991, but only a small part of intra ASEAN trade is preferential trade), followed by LAIA, MERCOSUR and GCC in terms of volume. In terms of relative importance, CACM occupied the second place followed by CEAO and LAIA (all of them with shares under 20 per cent). All developing country groupings have only modest shares in world trade and GDP, and exert therefore only a small external impact on the world economy.

88. These recent market integration efforts, especially in South-East Asia, Latin America and the Caribbean, are being developed in contrast to the past, in the context of an outward-oriented approach. 34/ In many cases, such as in MERCOSUR, the Andean Group or CACM, progress in subregional integration went hand in hand with substantial liberalization of trade and investment worldwide. Thus, regional integration acted in full complementarity with increased participation in the world economy.

89. Furthermore, there is slow but perceptible movement towards acceptance of a more flexible approach to regional/subregional cooperation by freeing it from geographical constraints and allowing for various speeds of integration. This trend is quite pronounced in Latin America and the Caribbean where bilateral and trilateral integration arrangements are being developed.

Integration in finance, production and investments

90. Cooperation in these areas continued largely on the basis of previously existing instruments and institutions. As in trade, operations started to recover towards the end of the 1980s. However, the structural adjustment process in member States and frequent substantial liberalization of trade and investment also brought about new opportunities for regional cooperation.

91. In the area of monetary and financial cooperation multilateral payments and clearing arrangements started to recover at the end of the 1980s from the crisis precipitated by the debt problems and the consequent financial squeeze

of that decade. 35/ In most arrangements, the underlying intra-trade of member States has been on the rise. Some new instruments, such as the ACU Swap Arrangement, were also implemented successfully. UNCTAD continued to support clearing and payments arrangements and served as the technical secretariat of their Multilateral Coordination Committee. The Latin American Reserve Fund offers short-term additional liquidity for intra-group current account transactions to member central banks, balance-of-payments credits for the financing of the member countries' adjustment policies and a credit facility which can be used by commercial banks for export financing in the member countries. New initiatives have further been undertaken by some integration groupings towards cooperation of national stock exchanges, liberalization of mutual portfolio investments and the development of electronic stock exchanges at regional levels. 36/

92. With respect to trade financing, both the national and the subregional/regional schemes lack the strength required for a successful stimulation of trade integration. Only 16 developing countries have full-fledged national trade financing schemes. Regional schemes, however, important they are, can not finance all the needs of South-South trade. 37/ This lack of strength on both levels and the significant demand for trade financing resources have resulted in the proposal to create an interregional trade financing facility (ITFF) for non-traditional goods transactions among developing countries.

93. Some groupings also attempted to strengthen the harmonization of monetary and fiscal policies among member States. Such cooperation involved frequently the adoption of a market determined exchange rate regime; the harmonization of money and credit policies; the harmonization of fiscal measures, especially as they relate to their relationship to domestic credit; the integration of money and capital markets through the establishment of regional stock exchanges and harmonization of laws dealing with security trading; and the harmonization of the design and implementation of adjustment programmes to ensure their compatibility with the objectives of subregional integration. Examples of such harmonization can be found in ECOWAS and MERCOSUR.

94. New emphasis has been placed on the building of production capacities through coordination of industrial and investment policies or the promotion of joint ventures in industry, or agriculture. Several groupings have complemented their traditional means of cooperation with new emphasis on the promotion of cooperation at the enterprise level, inter alia, through regional business councils, chambers of commerce and sectoral entrepreneurial meetings.

95. Integration among developing countries has, like that of developed countries, rapidly spread towards new areas of importance to their member States, such as services, science and technology, education, health and environmental protection. For example, the Group of Three has a comprehensive programme for health protection; CARICOM's functional cooperation has recently been growing for training, environmental protection and protection against natural disaster. CARICOM and ECOWAS plan measures for banning and surveillance of the dumping of toxic waste. MERCOSUR created programmes for environmental protection, science and technology, transports and standardization. All integration groupings have adopted various infrastructure development programmes, but face difficulties to raise

sufficient finance for their implementation. Furthermore, political and social cooperation are gaining ground in many groupings, to enhance participation by citizens and non-governmental organizations in the integration process. (For example, subregional parliaments have been proposed in the Andean Group, CARICOM, Central America and ECOWAS).

International support

96. Support of ECDC 38/ and economic integration by the international community has been based on the premise that ECDC enhances development prospects for developing countries by offering them the opportunity to: achieve a full use of their economic potential; attain "critical mass" in economic activities and in international negotiations; secure new market outlets for their products, especially manufactures; build and strengthen mutually beneficially trade and financial linkages. 39/ In situations where adequate financial resources cannot be mobilized easily by integration arrangements for their projects, assistance from development partners can play a catalytic role in enhancing the prospects for meaningful integration. While there now appears to be a greater willingness on the part of development partners to provide assistance to integration, 40/ such support needs to be further strengthened. Recently, the Standing Committee on ECDC agreed, inter alia, that it "will make the necessary arrangements for a pragmatic policy dialogue among the donor community, subregional, regional and interregional groupings with a view to mobilizing support for their programmes. 41/ 42/ To that end, the UNCTAD secretariat will be convening an intergovernmental group of experts Meeting in February 1994.

Chapter VI

DYNAMIC EFFECTS OF INTEGRATION

97. Much of the recent gain in momentum of regional integration throughout the world has been motivated by the goal to increase international competitiveness of the economies. The EC's single market programme was an outflow of the concerns about the relative weaknesses in the most dynamic sectors of the economy, in particular industries with high technology contents, services and scientific and technological development, as compared to its major competitors, the United States and Japan. This lag was also held responsible for slower economic growth and important gaps in relative levels of productivity. 43/

98. The main expectations from integration lie, therefore, in its dynamic effects: the benefits deriving from economies of scale in production and investment, a boost to internal and foreign investments, a rationalization and reorganization of production and investment within the integration grouping, a spur to technological development and the possibility to embark on new large-scale technologies requiring a large market basis.

99. Chapters II and III have shown that integration has in certain phases been accompanied by an increase in internal and foreign investments. 44/ Economies of scale and domestic and foreign investment are, therefore, likely to make a major contribution to the growth effects of economic integration over the medium and longer term.

100. But these dynamic effects have also other implications for third countries and the organization of world production and investment. In industries, where scale effects are important, productivity gains and cost reductions will result in stiffer competition for regional and foreign competitors alike. While this may lead to displacement of foreign firms on integration markets, this competition effect corresponds to actual cost savings, as distinct from trade diversion effects induced by relative price differentials due to trade policy measures. Integration groupings' firms will also improve their competitiveness on export markets, which is likely to raise their shares but at the same time lower world prices. Upgrading of regional production of goods and services will also induce a shift of comparative advantage within groupings between various sectors. If this process is allowed to take place undisturbed from protectionist pressures, it will create in turn new export opportunities for third countries in industries at the lower end of the scale, where competition from internal producers will tend to diminish. International support should be provided to developing countries for identifying such opportunities and adjusting their production and marketing to the needs of new demand.

101. The concentration of FDI on regional markets reinforced to some extent its general trend of the 1980s to concentrate on major industrialized countries. While it is difficult to isolate the contribution of integration, the general trend implied that developing countries have become comparatively less attractive to foreign investors, and that their proportion of foreign FDI stock dropped substantially for EC, Sweden, Canada and Japan. 45/ Inasmuch as FDI has grown partly in response to major impulses of integration to

competitiveness, partly due to trade policy measures, regional integration has exerted in a similar way as in trade "investment creation" and "investment diversion" effects.

102. Concentration tendencies of FDI are not only discernable within formal integration groupings. Much concern has arisen about potential implications of investment-led integration within the South and South East Asian region, mainly related to Japanese TNCs. Are these Asian States developing into an informal regional group centred around Japan? And to what extent will such close investment relations lead to a reorganization of TNCs production and trade, which reduces the scope for arm's length trade by independent exporters outside affiliation links with major TNCs?

103. The worldwide expansion of Japan's outward FDI stock reached record rates of 24 per cent per annum over the period 1980 to 1990. This growth was, however, very unevenly distributed amongst the various region: close to 30 per cent annually in developed countries, about 17 per cent in developing countries. While in absolute values FDI growth in South and South-East Asia was spectacular, Japanese stocks grew in that region no faster than in other developing regions. In terms of global shares of Japan's FDI stocks all developing regions lost. The phenomenon is not only specific to Japan's FDI in South and South-East Asia. More recently, the emphasis of FDI growth from various sources shifted to new countries in Asia, to Latin America and Western Europe, where similar linkage effects between investment and trade are developing.

104. None the less, Japan's FDI impact was much larger for a few specific manufacturing industries in the East and South-East Asian region (as does United States FDI in Latin America): this region accounted for two thirds of Japan's industrial investment in developing countries and 23 per cent of total foreign investment stock in the secondary sector worldwide in 1991. Therefore, investment linkages exerted a proportionally higher impact on trade of South and East Asian countries in sectors, where TNCs have firm-specific advantages with regard to technology and worldwide marketing networks, namely electronics, machinery, automobiles and precision instruments. Japanese FDI has contributed to stimulating exports to Japan, as the bulk of Japan's imports of these manufactures is shipped by TNC affiliates. Japanese imports of these TNC-intensive products (i.e. the four sectors above), have grown much faster than total non-oil imports into Japan towards the end of the 1980s, both from the world, as well as from the region. Countries which are hosts to affiliates of Japanese TNCs producing for the Japanese markets did, therefore, have an advantage over countries which do not have an important presence of Japanese corporations. The building up of a regional TNC network in Asia has, therefore, influenced regional trade of machinery and transport industries. But the overall contribution to regional and Japanese trade should not be exaggerated, as such products account still for a relatively small share of Japanese regional imports and their growth. The gain in international competitiveness of regional suppliers has also permitted a rapid expansion of exports in general and these industries in particular to other regional destinations and world markets. On the other hand, developing countries seeking to penetrate the Japanese market for machinery, electronics or transport equipment will probably have to enter into cooperation or attract investment by Japanese corporations. 46/

105. Should tendencies towards the building up of regional FDI networks persist, formal and investment-led integration could combine their effects to render access for independent third country exporters more difficult: integration stimulates FDI; and firm linkages based on investment reinforce the share of intra-company trade in world trade, and reduce the scope for arm's length transactions.

106. As a compensation for their increased attractiveness to inside and outside FDI (and hence, their detraction from other regions), integration groupings should intensify their industrial and investment cooperation with developing countries and facilitate relocation of labour-intensive and sunset industries. Certain steps have been undertaken in this direction by EC in the framework of bilateral agreements with developing countries. The new scheme of EC-International Investment Partners provides for co-financing to European and foreign partners interested in joint ventures in developing countries for preparatory activities, feasibility studies and equity financing. This scheme covers already a large number of developing countries, including many which are not normally attracting major FDI interest. Such schemes merit increased support and attention by other major investors.

107. As European experience has shown, integration has stimulated strategic alliances, take-overs and mergers. European integration groupings have recognized the importance of strengthening competition policy and strengthened their instruments for control of their TNCs' market behaviour, inside as well as outside their regions. The rapid expansion of TNC activities beyond national boundaries calls for analogous intensified cooperation among countries at the international level to safeguard competition. Experiences made by integration groupings could provide valuable guidance.

Chapter VII

REGIONAL INTEGRATION AND THE INTERNATIONAL TRADING SYSTEM

108. Recent experience has shown that regional integration can proceed together with the further development of the international trading system, as well as a worldwide intensification of trade and economic cooperation. In reality, even large integration groupings and trading nations have an interest in remaining open to cooperation with other regions, and do not wish to close the door on trade, investment and technological dynamics going on elsewhere. However, the track of regional integration has not been without some important deviations from openness and it has not always considered potential problems that might be created for third countries. Awareness has also increased that integration does not automatically lead to growth and there is a need for conscious action vis-à-vis weaker partners.

109. GATT provides a framework for evaluating trade aspects of integration schemes, as well as for review and consultations. These evaluations focus on trade in goods and compatibility with existing contractual commitments, while corresponding rules are under negotiation regarding services. However, GATT criteria do not seem to capture sufficiently the economic effects of integration, such as trade diversion or creation, nor do they capture the increasingly comprehensive nature of integration arrangements. Evaluating groupings' impact on international trade and economic cooperation under the sole angle of trade barriers is becoming an insufficient focus. Such an evaluation will become more meaningful if the provisions of integration arrangements are also compared with similar emerging disciplines in new areas under negotiation in the Uruguay Round of multilateral trade negotiations.

110. There are no internationally agreed criteria for such a wider evaluation of economic integration arrangements. However, the United Nations General Assembly has agreed on some broad principles and affirmed the need to ensure that integration arrangements impart dynamism to global trade and enhance trade and development possibilities for developing countries. 47/ UNCTAD VIII considered economic integration, as a complementary means to strengthen the trade liberalization process in the world economy. It also recognized that large economic spaces involving major trading partners could foster competitiveness and, through their growth effects, could lead to an expansion of trading opportunities for other countries. However, such spaces had to respect accepted international rules with regard to their impact on non-participating countries and to strengthen the international trading system. 48/ Such broader concerns would warrant periodic evaluation of integration groupings according to criteria which remain to be specified, and taking full account of the particularities of each arrangement, its scope of action and its potential impact on international trade, economic cooperation and development.

111. A major yardstick in this regard is whether groupings, in devising their internal schemes, have given due regard to existing and emerging international disciplines, observed existing international standards, or are open to adjust their instruments to the newly emerging rules, including those emanating from the Uruguay Round. In this context, the UNCTAD secretariat has prepared a

preliminary comparative analysis of the provisions with respect to key issues of the North American Free Trade Agreement (NAFTA), the Agreement on the European Economic Area (EEA) and the Draft Final Act of the Uruguay Round (DFA). The analysis shows that wherever they are consistent, they can be subsumed in the multilateral trading system and hence can be considered as building blocks of the system. On the contrary, if they introduced conflicting approaches and mechanisms, progress in strengthening the international trading system could be hampered. In spite of the different institutional structures of the groupings and the ex ante character of the analysis of agreements which are not yet operational, it can be concluded that there is little in these regional agreements that would directly impede action at the multilateral level regarding services, intellectual property rights or subsidies. On the contrary, the acceptance of the DFA would effectively multilateralize a number of elements of the regional agreements and even go beyond them in such areas as agriculture. UNCTAD could continue to examine the compatibility of emerging regional trade and integration agreements with revised GATT rules. In this examination, one could draw on the experiences with innovative aspects of NAFTA, EC and EEA for disciplines in areas which are not - or only partly - covered by GATT, such as an overall approach to competition policy and to trade-related environmental issues. 49/

112. A second yardstick for evaluation would relate actual implementation. To what extent have groupings and their member States extended new schemes and liberalization measures to third countries or opened possibilities for participation? Or have they limited new measures to member States only; subjected their extension to third countries to conditions; or applied the new rules in a preferential manner? Examples can be found for both types of groupings' behaviour. There are several groupings whose member States have proceeded to substantial unilateral trade liberalization vis-à-vis third countries, while also progressing with subregional integration: MERCOSUR, the Andean Group and other LAIA countries, CACM, CARICOM, CEAO or PTA and CEFTA prove that regional integration can be fully compatible with multilateral liberalization. Examples also exist of MFN- liberalization of exchange and other restrictions on investment and financial transactions. On the other hand, there were also instances, where internal liberalization was accompanied by new price preferences or origin requirements, or subject to reciprocity. Some cases of this nature have raised concerns for third countries. It may be significant that most conflicts linked with integration schemes arose in areas where international disciplines were either non-existent, of insufficient coverage, or introduced new concepts. This further reinforces the need for an early conclusion of the Uruguay Round.

113. It remains necessary to continue the ongoing reviews of agreements with regard to their compatibility to the existing General Agreement. They provide an opportunity to query increasing restrictiveness of various aspects of integration agreements, such as tightening of origin rules on the occasion of revision or extension of integration agreements; or preferential exception of free-trade area partners from safeguard action, which would, in principle, be expected to be extended to all countries alike. In this context, it has been claimed that regional agreements can undermine the basic aim of the multilateral trade order not only by adding preferential market access rights but also by eliminating GATT rights in their mutual relations. Some groupings replaced certain GATT rules by subregional rules imposing fewer constraints on

members than those of GATT. 50/ Such rules reduce the scope of applicability of general GATT standards and might increase the danger of discriminatory - i.e. more frequent - application of safeguards and similar measures vis-à-vis third countries. The suggestion has been made that regional agreements should consider including a "GATT acquis clause" which expressly preserves all substantial and procedural rights under GATT. 51/ It has been argued, that such a clause would have advantages from the point of view of multilateral trade order, as well as for regional partners: the clause would anchor their market access rights in both legal systems, provide them with assurances against operational difficulties of integration schemes, and enable them to choose between two sets of dispute settlement procedures. On the other hand, one could also claim that it is the very nature of integration to resolve problems through positive cooperation (for example, by granting payments support instead of applying payments safeguards). Nevertheless, the extension of multilateral disciplines due to the Uruguay Round will increase the number of cases where GATT provides a multilateral framework in areas not covered by integration agreements: groupings will need to examine how they will incorporate new disciplines into their regional agreements.

114. Criteria for ex-post evaluation of actual performance of integration groupings could include levels of external protection, growth of intra-trade as compared to third-country trade, and the development of market shares of third-country suppliers for protected products on the integrated market in comparison to other markets. However, previous sections of this report have shown that it is difficult to isolate the effects of integration from all other factors.

115. Discussions have recently arisen regarding the appropriate way to treat within the multilateral trading system some larger integration groupings among developing countries proceeding more resolutely towards implementation of their original objectives: the applicability of the special provisions relating to developing countries' groupings under the "Enabling Clause" of GATT (rather than Article XXIV) has been called in question. However, the original problems of integration among developing countries underlying part IV have not changed: mutual trade remains small, preferential trade even smaller; their shares in world trade and, hence, their potential external impact are very small. Within UNCTAD, the international trading community reconfirmed that subregional and regional integration among developing countries deserves to be promoted and requires further international support.

116. Periodic review of the actual evolution of integration groupings within an international framework, as provided by the UNCTAD Trade and Development Board, could focus on their implications for international trade, economic cooperation and development among all countries concerned, as well as the trading system as a whole. Such evaluations will in particular become useful once the various new agreements, which are now at different stages of negotiation or ratification, become fully operational. As has been seen, integration arrangements exert their external effects mainly through concrete action. There are examples of potential risks and problems, in particular for weaker partners, and new issues arising in new areas which merit continued vigilance. Furthermore, the rapid rise in the proportion of world trade which they cover is likely to make their impact on remaining outsiders more critical

and the relationship between groupings a more prominent issue. A timely recognition of potential problem areas and their debate in a non-contractual framework at an early stage may contribute to preventing and reducing possible tensions and help to explore solutions. Such regular reviews may also contribute to enhancing trade and investment cooperation between developing and other countries and the large emerging integration groupings within a multilateral framework.

Notes

1/ The Trade and Development Board made, at its thirty-sixth session, in March 1990, a major review of the implications of bilateral agreements and regional integration and UNCTAD VIII considered this topic in February 1992; see also the secretariat reports TD/B/1242 and TD/358, Chapter 3.

2/ See inter alia "The Implications of Bilateral Agreements and Regional Integration, especially those which have a major impact on global trade, in particular on the trade and development of developing countries", TD/B/1242; UNCTAD VIII Analytical Report, pp. 83-87 and 169-170; Trade and Development Report 1991, pp. 60-65; Trade and Development Report 1990, Chapter III.A. "The formation of a wider European Economic Space: Implications for exports from developing countries", pp. 79-87; Trade and Development Report 1989, pp. 70-74.

3/ Apart from two cases of bananas.

4/ See TD/358, UNCTAD VIII, Analytical Report by the secretariat, p. 80; based on M. Davenport and S. Page, "Regional Trading Agreements: The impact of the Implementation of the Single European Market on Developing Countries" (Report prepared for the UNCTAD secretariat, October 1989).

5/ See World Investment Directory, Vol. III, p. 31.

6/ See World Investment Directory, Vol. III, p. 49.

7/ Resolution A 3-0040/92 of the European Parliament on "Impact of the Single Market on the Developing Countries" (Official Journal of the European Communities, No. C150, 15 June 1992).

8/ Ratification of the Agreement establishing the EEA is presently in progress, while Switzerland has decided not to join EEA for the time being.

9/ Examples include margarine, certain sugar products, chocolates, malt extracts, noodles, couscous, tapiokasago, corn flakes, bakery products, jams and marmalades, tomato ketchup and sauces, soups, beer, gin, vinegar.

10/ A recent EFTA study revealed substantial scope for efficiency gains of banking services, which will in turn have a powerful impact on international competitiveness in trade and on investment. See Edward P.M. Gardener and J.L. Teppett: "The impact of 1992 on the Financial Sector of EFTA countries" occasional paper No.33, EFTA 1992.

11/ The total GDP of the four adhesion candidates in 1991 was US$ 640 billion, or about 10 per cent of that of EC.

12/ A limitation on this analysis is that it considers only those goods which receive GSP preferences in the EFTA States. It does not take account of any developing country exports that receive no preference in the EFTA markets but do receive preferences or pay lower MFN rates in the EC. As such, it may tend to overstate the adverse consequences of the EFTA States shifting from their existing preferential scheme to that of the EC.

13/ The position for Austria is difficult to determine in many cases because its GSP data are at too high a level of aggregation to permit precise comparison with the EC regime. If Austria is omitted, the proportion of cases in which there would be an unfavourable shift rises to just under two-thirds.

14/ Recourse has been made recently by EC to safeguards in the case of meat and dairy products.

15/ With the exception of the Dominican Republic, Haiti, Suriname and Cuba.

16/ Under CARIBCAN, Canada also extends tariff preferences for selected exports of Commonwealth Caribbean countries.

17/ For a detailed description, see P. Cark and P. Burn, "Canada-United States Free Trade Agreement and its impact on developing countries", in Selected Issues of Multilateral Trade Negotiations, UNCTAD/ITP/42.

18/ For details see "The North American Free Trade Agreement: An Overview and Description". Ottawa, August 1992.

19/ For details see "The North American Free Trade Agreement: An Overview and Description". Ottawa, August 1992.

20/ Some of the models are summarized in R.J. Langhammer, "The NAFTA: another futile trade area (AFTA) or a serious approach towards regionalism?" Kiel Discussion Papers No. 195, Institut für Weltwirtschaft, Kiel (November 1992).

21/ See: (i) United States International Trade Commission, "The likely impact on the United States of a free trade agreement with Mexico". USITC Publication, 2353, February 1991. Cited in: World Trade Materials, vol. 3, 1991, No. 3, pp. 83-177; (ii) D.K. Brown, A.V. Deardorff and R.M. Stern,

"A North American free trade agreement: Analytical issues and a computational assessment", The World Economy, vol. 15 (1992), No. 1, pp. 11-30; (iii) KPMG Peat Marwick, Policy Economic Group, "The Effects of a free trade agreement between the US and Mexico", Executive Summary. Washingington D.C., March 1991. Cited in R.J. Langhammer, op. cit. Export increases estimated under these models refer to 1989 levels as base year.

22/ See R. Erzan and A. Yeats, "Free trade agreements with the United States. What's in it for Latin America?". The World Bank, Policy Research Working Papers, WPS 827 (January 1992). The export increase refers to 1986 levels.

23/ See G. Bannister and P. Low, "Textiles and apparel in NAFTA. A case of constrained liberalization", The World Bank, Policy Research Working Papers, WPS 994 (October 1992). The export increase refers to 1990 levels as base year. It should be noted that this estimation uses a relatively high import demand elasticity of -3.

24/ See R. Erzan and A. Yeats, "Free trade agreements with the United States, What's in it for Latin America?". The World Bank Policy Research Working Papers, WPS 827 (January 1992).

25/ See United States International Trade Commission, "The likely impact on the United States of a free trade agreement with Mexico", op. cit. Furthermore, D.K. Brown, A.V. Deardorff and R.M. Stern, "A North American free trade agreement: Analytical issues and a computational assessment", op. cit.

26/ A substantial part of Caribbean exports consists of processing exports. As tariffs only apply to model Caribbean value added, trade diversion may be mitigated.

27/ Lee Kyung-Shik, Deputy Prime Minister and Minister for Economic Planning of the Republic of Korea, "Trade Policy Challenges to East Asia" in Republic of Korea Economic Bulletin, June 1993, pp. 6-9.

28/ See Trade Policy Review New Zealand, 1990, GATT.

29/ See Trade Policy Review New Zealand, 1990, GATT.

30/ The lessons of the experience of the 1980s are described in UNCTAD, Accelerating the development process: Challenges for national and international policies in the 1990s (Report by the Secretary-General of UNCTAD to UNCTAD VIII) (United Nations publication TD/354/Rev.1): P. 34-38.

31/ In this connection UNCTAD convened in December 1991 an expert group meeting to undertake a broad assessment of the integration process in the light of changing realities. The report of this meeting is contained in Report of the expert group meeting on regional and subregional economic integration and cooperation among developing countries (UNCTAD/ECDC/228, 6 August 1992).

32/ The Treaty establishing this Community has not yet entered into force as it has been ratified by the required minimum number of signatory States. As of May 1993, the treaty had been ratified by 23 of the signatory States.

33/ A statistical table detailing the intra-grouping trade performance of developing countries can be found in UNCTAD, Review of major developments in the area of economic cooperation among developing countries (TD/B/CN.3/3, 4 December 1992): Table 3, p. 27.

34/ For example, LAIA member States have endorsed the role of LAIA as the main organization for developing standard-setting framework for economic cooperation instruments (rules of origin, safeguard clauses) which are consistent with the open trade policies adopted by a growing number of its member States.

35/ A review of performance of payments and clearing facilities can be found in UNCTAD, Review of major developments in the area of economic cooperation among developing countries (TD/B/CN.3/3, 4 December 1992).

36/ For instance, in CARICOM, the three existing stock exchanges (Barbados, Jamaica and Trinidad and Tobago) have created a cooperation scheme called "Caribbean Stock Exchange". In MERCOSUR, individuals and/or legal entities domiciled in any of the member States are permitted to invest freely on each other's Stock Exchanges. In the case of GCC, citizens of other Gulf States have been permitted to own and trade in shares of local companies in Bahrain; in Kuwait, several companies listed on the Stock Exchange, were registered in other GCC countries. The Ibero-American Electronic Stock Exchange (BEIA) project is to handle trading in the securities of major enterprises in the Ibero-American region.

37/ In 1989 all the existing regional trade financing schemes of developing countries combined (they are: the Latin American Export Bank [BLADEX], The Andean Trade Financing System [SAFICO], the Inter-American Development Bank [IDB], Trade Financing Facility, the Islamic Development Bank [IsDB], the Arab Monetary Fund [AMF], Trade Financing Program, the Ecobank [ECOWAS] and the Central American Integration Bank) extended credits in the value of US$ 1.55 billion on the equivalent of 2.8 per cent of South-South trade in non-traditional goods.

38/ ECDC is progressing in a more general manner between developing countries, in addition to sub-regional and regional integration. It includes interregional schemes, such as the Global System of Trade Preferences among developing countries, where a second round of negotiation is presently aiming at enlarging the scope of trade preference and membership.

39/ For more discussion on the rationale for ECDC see UNCTAD, "Strengthening the weakest link: A review of certain aspects of South-South trade and finance" (United Nations publication, TD/INF/PUB/86/2): Chapter II.

40/ In a policy-level meeting organized by within the framework of the OECD/Development Assistance Committee, the donor community, among other activities, reviewed their development assistance policy with a view to reorienting it in support of the process of revitalizing regional cooperation among developing countries (see TD/B/CN.3/3, pp. 19-20).

41/ Report of the Standing Committee on Economic Cooperation among Developing Countries on its first session (UNCTAD: TD/B/39(2)/16-TD/B/CN.3/5): Annex II, para. 4.

42/ Two examples of subregional cooperation/integration arrangements which have developed with some success systems of regular dialogue with development partners have been ASEAN and SADC. ASEAN has developed a "dialogue" with major industrialized countries and international organizations on salient policy issues of regional development, market access, international trade and economic cooperation, and certain political issues. SADC, has organized since 1980 Annual Consultative Conferences to secure international cooperation. In fact, SADC's cooperating partners provide the bulk of the financing required for the implementation of SADC's regional development programme.

43/ "The Economics of 1992" in The European Economy, No. 35, March 1988.

44/ According to data contained in the World Investment Directory, EEA is emerging as a particularly powerful focus of investment. During the second half of the 1980s, there were large volumes of intra-EC-FDI, substantial growth of EC's inflows and outflows to and from EFTA States, as well as of intra-EFTA investments. The United States-Canada free-trade area has also been associated with investment surges between the partner countries: during the four years 1987-1990, Canadian investment in USA rose by three quarters over the preceding four year period, United States investment in Canada by one third. Japanese investors stepped up considerably the share of their outward FDI stocks to Western Europe (although their participation in these countries remains still at modest levels, in most cases, below 5 per cent of total FDI stocks of these countries) and NAFTA: their combined shares rose from about 40 per cent in the early 1980s to 63 per cent in 1990. United States firms also stepped up considerably their investments in Western Europe, which accounts now for almost half of total FDI stock of US companies. See World Investment Directory, Volumes I and III, United Nations, New York, and Hugbauer and Schott, "Free Trade Areas, the Enterprise of the Americas Initiatives and the Multilateral Trading system" in Strategic Options for Latin America in the 1990s, OECD Development Centre and Interamerican Development Bank, 1992.

45/ World Investment Directory, op. cit.

46/ See UNCTAD Trade and Development Report, 1990, pp. 91-99, United Nations, New York.

47/ See paragraph 6 of General Assembly resolution 44/219.

48/ Cartagena Commitment, paragraphs 14 and 146.

49/ The negotiations of environmental rules are still under way in NAFTA at the time of the drafting of this report.

50/ Frieder Roessler, "The relationship between regional integration agreements and the multilateral trade order", Geneva 1993.

51/ Frieder Roessler, op. cit.

Annex Table 1

Trade coverage and intra-trade of major integration groupings involving developed countries

Integration Groupings	Share of intra-trade in total trade of the groups in %				Share of intra-grouping trade in world trade in %
	1980	1987	1991	1992	1991
US-Canada Free Trade Agreement	26.2	37.8	33.1	33.5	5.09
NAFTA	33.5	43.5	39.3	40.8	6.05
EEC (12)	55.8	58.8	61.4	61.6	24.7
EFTA	14.7	14.7	12.6	12.0	0.80
EEA	63.3	66.3	68.0	70.1	33.16
Europe Agreements (EC)	19.2[1]	16.3[1]	40.0[1]	-	0.60[2]
CEFTA	11.0	7.6	6.1	-	0.07
ANZCERTA	6.1	7.0	7.2	-	0.09
APEC	53.2	64.4	64.4	-	23.07

Source: United Nations "COMTRADE" and IMF Direction of Trade.

[1] Shares of EC in exports from former Czechoslovakia, Hungary and Poland (estimates).

[2] Share of EC imports from Europe Agreement partners in world trade.

Annex table 2

Trade coverage and intra-trade of major integration groupings among developing countries

Major integration groupings	Shares of Intra-trade in Total Trade of the groupings			Share of intra-trade in World trade in %
	1980	1985	1991	1991
CACM	25.4	15.5	17.5	0.02
CARICOM	4.0	5.9	5.3	0.01
LAIA	13.8	8.0	13.0	0.43
ANDEAN Group	4.0	2.6	5.4	0.05
MERCOSUR	11.6	5.5	11.1	0.15
ASEAN	17.9	19.3	19.8	0.95
GCC	2.8	4.9	8.2	0.20
PTA	8.3	6.7	9.4	0.02
ECOWAS	2.1	5.3	6.1	0.04
CEAO	8.8	8.9	10.5	0.02
MRU	0.6	0.3	-	-
UDEAC	1.8	2.1	2.4	-
UMA	0.3	1.0	2.8	0.02

Source: United Nations "COMTRADE" and IMF Direction of Trade.

Annex Table 3

Comparison of market access under EFTA GSP and EC preferences[a]

6-digit code	Product	Difference between EFTA GSP and EC preferences for main exporters[b]
Finland		
080300	Bananas	EC less favourable
847183	Storage Units	No difference
200820	Pineapples, prepared	EC less favourable
847330	Parts/accessories	No difference
847192	Input/Output units	EC less favourable
090111	Coffee	No difference
851650	Microwaves	EC less favourable
160414	Preserved tuna	EC less favourable
847120	Digital auto data processing machines	No difference for most exporters
871200	Bicycles	No difference for most exporters
Norway		
890620	Floating drilling platforms	No difference
080510	Oranges	EC less favourable
847330	Parts/accessories	No difference
080810	Apples	EC less favourable
080520	Mandarins, etc.	EC less favourable
630260	Bed-, table-, toilet-linens, etc.	EC less favourable
950390	Toys	EC less favourable for most exporters
570110	Carpets	No difference for most exporters
060310	Cut flowers	No difference for most exporters
420310	Articles of apparel	EC less favourable for most exporters
Sweden		
950390	Toys	EC less favourable
420212	Travel goods, etc.	EC less favourable
852711	Radio broadcast receivers	EC less favourable
851710	Telephone sets	No difference for most exporters
670290	Artificial flowers	No difference for most exporters
854211	Monolithic integrated circuits	EC less favourable
852731	Other radio broadcast receivers	EC less favourable
847192	Input/output units	EC less favourable for most exporters
847330	Parts/accessories	No difference for most exporters
851650	Microwaves	EC less favourable
Austria		
2710	Petroleum oils	EC probably more favourable
8527	Reception apparatus for radio-telephony	Impact unclear*
5701	Carpets	EC probably more favourable
6110	Jerseys, etc., knitted or crocheted	EC probably less favourable for most exporters
4203	Articles of apparel/accessories of leather	EC probably more favourable for most exporters
6204	Women's/girls/ outerwear	Impact unclear*
4202	Trunks, suitcases, etc.	Impact unclear*
7601	Unwrought aluminum	Impact unclear*
8528	Television receivers	Impact unclear*
6406	Parts of footwear	EC more favourable

Notes: * Impact unclear because imports listed at 4-digit level only.

(a) The table analyses the ten most important products covered by the GSP (by value for the latest available year) for each of the EFTA States listed.

(b) The comparison is between the regime applied by each EFTA State to the main exporting countries, and the EC regime that applies to the same countries.

Source: Commission of the European Communities, TARIC: Integrated tariff of the European Communities, Luxembourg; UNCTAD, Generalized System of Preferences: Replies received from preference-giving countries: TD/B/C.5.

Annex Table 4

Broad areas of competition on the EC market between Europe Agreement partners and developing countries

Product group	Main competitors
Food and agricultural products (fresh cherries, plums & apples, beetpulp, rape oil cake, ethyl alcohol)	Argentina, China, India, Turkey
Chemical products (polystyrene, superphosphate)	Brazil, Mexico, Morocco, Saudi Arabia, Tunisia
Metal products (semi-finished iron & steel products)	Brazil, Mexico
Miscellaneous manufactures (Machine parts, glass sterilizing jars)	Egypt, Taiwan Province of China, Thailand, Turkey

Source: Eurostat, Monthly EEC External Trade (Combined Nomenclature), 10/1992.

Annex table 5

Potential for trade diversion under NAFTA
Selected exports from Mexico and non-NAFTA developing countries to the United States, 1992[a/]

Product description	SITC categories	Main competing developing countries (in value of their exports)
Certain vegetables, fresh grapes[c/]	05751, 05897	Thailand, Chile
Textile yarns[c/]	65133, 65134	Brazil, Egypt, Thailand, CBI countries[d/] (in particular El Salvador)
Iron and steel products[c/]		
- semi-finished	67262	Brazil, Venezuela
- flat-rolled	67411, 67413	Republic of Korea, Taiwan Province of China
Telecommunications apparatus		
- Radio-broadcast receivers[e/]	76212	Singapore, Brazil
Electrical apparatus, appliances[c/]		
- Electrical resistors	77232, 77235, 77245	Taiwan Province of China, CBI countries[d/] (in particular Costa Rica, Barbados, Dominican Republic)
- Components electrical circuits	77249	Taiwan Province of China
- Piezo-electric crystals of electronic components	77681	Taiwan Province of China, Republic of Korea
- Electrical capacitators	77862, 77865	CBI countries[d/] (in particular El Salvador)
Clothing[e/]	84121, 84151, 84159, 84282, 84426, 84482, 84512, 84551, 84552, 84587, 84589, 84812	Taiwan Province of China, Republic of Korea Hong Kong, Singapore, Indonesia, Thailand India, Bangladesh, Philippines, Sri Lanka, Malaysia, CBI countries[d/] (in particular Costa Rica, Republic, Guatemala, Honduras, Jamaica, Belize)
Dominican		
Footwear[f/]	85115, 85148, 85151	Brazil, Taiwan Province of China, Republic of Korea, Hong Kong, Indonesia, Thailand, India, CBI countries[d/] (in particular Dominican Republic)
	H.S. Categories[b/]	
Magnetic tapes for sound recording	8523.11.00	Republic of Korea
Parts of radar/radio navigation apparatus	8529.90.50	Singapore, Taiwan Province of China, Republic of Korea, Malaysia, Thailand
Electric motors	8501.40.40	Republic of Korea, Taiwan Province of China, Singapore, Thailand
Components electrical circuits	8536.50.00 8536.69.00 8536.90.00	Taiwan Province of China, Hong Kong, CBI countries[d/] (in particular Dominican Republic)
Wire cables and other electric conductors (insulated)	8544.30.00 8544.51.80	Taiwan Province of China, Philippines, Thailand

Source: UNCTAD secretariat.

a/ Products facing less than 4 per cent MFN-tariffs in the United States are excluded.
b/ Harmonized tariff schedule.
c/ Duty-free access under CBI.
d/ Countries benefiting from CBI.
e/ Duty-free access under CBI only for some items.
f/ No duty-free access under CBI.

Annex table 6

Trade and other integration programs of selected African, Asian and Latin American/Caribbean integration groupings as of January 1993

Group	Goal	Trade programme	Related schemes
AFRICA			
AMU	common market	trade preferences	
UDEAC	customs union	trade preferences, common external tariff implemented in 4 of the 6 member States	
ECCAS	customs union	trade preferences, common external tariff envisaged	Clearing House of ECCAS, common currency shared by Cameroon, Central African Republic, Chad, Congo, Gabon.
CEPGL	free trade area		
ECOWAS	free trade area	beginning January 1990, annual tariff reductions of two speeds but ultimately reaching 100 % (free trade) by year 2000.	ECOBANK (trade financing, banking), West African Clearing House (WACH)
MRU	customs union	trade preferences (free trade in certain goods), common external tariff envisaged	
PTA	common market	trade preferences, free trade and common external tariff envisaged	PTA Clearing House
SADC			
CEAO	free trade area	trade preferences, free trade in unprocessed goods	West African Monetary Union (common currency)
ASIA			
ACC			
ASEAN	free trade area	trade preferences, ASEAN Free Trade Area (AFTA) envisaged over 15 years	
Bangkok Agreement	preferential trade area	trade preferences	
GCC	common market	trade preferences, free trade in certain goods, common external tariff envisaged	
ECO	free trade area	trade preferences, free trade in certain goods	

Group	Goal	Trade programme	Related schemes
SAARC	preferential trade area	Under the SAARC Preferential Trading Arrangement (SAPTA), tariff preferences, removal of non-tariff barriers and long-term contracts are negotiated initially on a product-by-product basis.	Sectoral programmes for training, research, and other forms of functional cooperation.
LATIN AMERICA AND THE CARIBBEAN			
Andean Group	customs union	free trade area officially entered in force at end-1992, common external tariff between Colombia and Venezuela implemented, in other member States envisaged by end-1995 (range: 5-20 %)	Andean Trade Financing System (SAFICO), Latin American Reserve Fund (LARF)
CARI-COM	common market	free trade area; common external tariff in range of 5-45 % envisaged by end-1994	Caribbean Stock Exchange
CACM	customs union	free trade area; common external tariff on most tariff lines; elimination of exceptions to CET envisaged by end-1994.	Central American Integration Bank (trade financing, joint projects), Central American Clearing House (CACH, suspended 1992), Central American Stock Exchanges Federation (BOLCEN, with Panama)
LAIA	preferential trade area	differentiated regional tariff preferences (PAR) of 8 to 40 % depending on each country's level of development	Latin American Export Bank (BLADEX, trade financing), LAIA Reciprocal Payments and Credit Agreement (clearing house), LARF, Ibero-American Stock Exchanges Federation (FIABV, with Portugal, Spain)
OECS	common market	free trade area; common external tariff in range of 5-45 % envisaged by end-1994	common currency
MERCO-SUR	common market	increasing trade preferences starting from 47 % in 1991 and leading to free trade area by end-1994 (exceptions for Paraguay, Uruguay till end-1995), common external tariff of 15 % after end-1994 envisaged.	